

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

SMUGMUG, INC.,
Plaintiff,
v.
VIRTUAL PHOTO STORE LLC, dba VPS,
LLC,
Defendant.

No. C 09-2255 CW
ORDER GRANTING
DEFENDANT'S MOTION
TO DISMISS OR IN THE
ALTERNATIVE TO
TRANSFER
(Docket No. 49)

Defendant Virtual Photo Store LLC renews its motion to dismiss Plaintiff Smugmug, Inc.'s complaint for lack of personal jurisdiction (Docket No. 49). In the alternative, it asks the Court to transfer the action to the Northern District of Illinois. Plaintiff opposes the motion. The matter was taken under submission on the papers. Having considered all of the papers filed by the parties, the Court GRANTS Defendant's motion.

BACKGROUND

In this action, Plaintiff, a Delaware corporation with its principal place of business in Mountain View, California, seeks a declaration that it does not infringe U.S. Patent Nos. 6,321,231 (the '231 patent), 6,332,146 (the '146 patent) or 7,487,155 (the '155 patent). Plaintiff also asks the Court to find that the '231 and '146 patents are unenforceable due to laches.

Defendant is the owner, by assignment, of the patents-in-suit. The patents relate to systems and methods for digital image

1 management. Defendant is a Delaware limited liability company with
2 its principal place of business in Chicago, Illinois. Defendant
3 was incorporated in March, 2001 and its "business consists of
4 licensing its property rights." Moore Dec. ¶ 10 (June 10, 2009).
5 In 2002, the law firm of Marshall, Gerstein & Borun LLP (the
6 Marshall firm) assigned to Defendant the '231 and '146 patents, and
7 the patent application that subsequently issued as the '155 patent.
8 Walker Dec. ¶ 11 & Ex. 7. Defendant's Board consists of three
9 managers who all live in Illinois: Carl E. Moore, Jr., Timothy
10 Vezeau and Nate Scarpelli. Moore Dec. ¶¶ 6-7. Defendant also has
11 two officers: Paul Hanson and John Jebens. Moore Dec. ¶ 9. Mr.
12 Hanson resides in Memphis, Tennessee, and Mr. Jebens resides in
13 Clearwater, Florida. Id.

14 On March 3, 2009, counsel for Defendant sent a letter to
15 Plaintiff's Chief Executive Officer regarding its '231 and '146
16 patents. Compl., Ex. D. The letter stated that multiple companies
17 had entered into licensing agreements with Defendant and suggested
18 that Plaintiff also take a license. On April 3, 2009, counsel for
19 Defendant sent another letter to Plaintiff, asking it also to
20 consider the '155 patent in its analysis. Brown Dec., Ex. 1. The
21 parties did not begin substantive discussions. Plaintiff filed
22 this declaratory judgment action on May 21, 2009.

23 The Court denied without prejudice Defendant's first motion to
24 dismiss for lack of personal jurisdiction. There, Plaintiff argued
25 that general jurisdiction was proper on two bases: (1) Defendant
26 solicited business in California through its website and (2) it was
27 the alter ego of the Marshall firm, which has contacts in
28 California. Plaintiff asserted that Defendant's cease-and-desist

1 letters and website justified specific jurisdiction. At that time,
2 Plaintiff did not present enough evidence to show that Defendant
3 had sufficient minimum contacts with California; the Court gave
4 Plaintiff leave to conduct limited jurisdictional discovery on
5 Defendant's licensing and enforcement activities in California.
6 The Court rejected Plaintiff's alter ego theory and did not allow
7 Plaintiff to conduct discovery on Defendant's relationship with the
8 Marshall firm.

9 Through jurisdictional discovery, Plaintiff obtained further
10 information on Defendant's activities in California. Letters show
11 that, between May, 2002 and April, 2007, Defendant solicited at
12 least twenty California companies to join its licensing program.
13 Walker Supp. Decl. Exs. 18-35, 37-43, 45. Further, Defendant
14 disclosed that it has non-exclusive license agreements with at
15 least five California entities. Walker Supp. Decl. Exs. 8-10, 12-
16 13; Weiner Supp. Decl. ¶ 21. In most of these agreements,
17 Defendant granted licenses in exchange for one-time, lump sum
18 payments; one entity, however, continues to pay Defendant royalties
19 on an ongoing basis. Defendant admits that it has earned a
20 substantial percentage of its revenue from its California
21 licensees. Id.

22 LEGAL STANDARD

23 Under Rule 12(b)(2) of the Federal Rules of Civil Procedure, a
24 defendant may move to dismiss for lack of personal jurisdiction.
25 In a suit for declaratory judgment of non-infringement, Federal
26 Circuit law is applied to determine whether the district court has
27 personal jurisdiction over an out-of-state corporation. Avocent
28 Huntsville Corp., et al. v. Aten Int'l Co., 552 F.3d 1324, 1328

(Fed. Cir. 2008).

Where a district court's disposition of the personal jurisdiction question is based on affidavits and other written materials, a plaintiff need only make a prima facie showing that the defendants are subject to personal jurisdiction. Trintec Indus. v. Pedre Promotional Prods., 395 F.3d 1275, 1282 (Fed. Cir. 2005). The district court must construe all pleadings and affidavits in the light most favorable to the plaintiff and resolve any factual conflicts in the affidavits in the plaintiff's favor. See Trintec Indus., 395 F.3d at 1282-83; Elecs. For Imaging, Inc. v. Coyle, 340 F.3d 1344, 1349 (Fed. Cir. 2003) (noting agreement between Federal Circuit and Ninth Circuit).

Where a district court concludes that the existing record is insufficient to support personal jurisdiction and the plaintiff demonstrates that it can supplement its jurisdictional allegations through discovery, the plaintiff is entitled to jurisdictional discovery. Trintec Indus., 395 F.3d at 1283. "Discovery may be appropriately granted where pertinent facts bearing on the question of jurisdiction are controverted or where a more satisfactory showing of the facts is necessary." Boschetto v. Hansing, 539 F.3d 1011, 1020 (9th Cir. 2008) (quoting Data Disc, Inc. v. Sys. Tech. Assoc., Inc., 557 F.2d 1280, 1285 n. 1 (9th Cir. 1977)); see Autogenomics, Inc. v. Oxford Gene Tech. Ltd., 566 F.3d 1012, 1021 (Fed. Cir. 2009) (applying the law of the regional circuit for jurisdictional discovery request).

"Determining whether personal jurisdiction exists over an out-of-state defendant involves two inquiries: whether a forum state's long-arm statute permits service of process, and whether

1 the assertion of personal jurisdiction would violate due process."
2 Inamed Corp. v. Kuzmak, 249 F.3d 1356, 1359 (Fed. Cir. 2001).
3 California's jurisdictional statute is co-extensive with federal
4 due process requirements; therefore, jurisdictional inquiries under
5 state law and federal due process standards merge into one
6 analysis -- "whether jurisdiction comports with due process."
7 Inamed Corp., 249 F.3d at 1360.

8 The exercise of jurisdiction over non-resident defendants
9 violates due process unless those defendants have "minimum
10 contacts" with the forum state so that the exercise of jurisdiction
11 "does not offend traditional notions of fair play and substantial
12 justice." Int'l Shoe Co. v. Washington, 326 U.S. 310, 316 (1945).
13 "[I]t is essential in each case that there be some act by which the
14 defendant purposefully avails itself of the privilege of conducting
15 activities within the forum State, thus invoking the benefits and
16 protections of its laws." Hanson v. Denckla, 357 U.S. 235, 253
17 (1958). Personal jurisdiction may be either general or specific.

18 DISCUSSION

19 Plaintiff asserts that the Court has personal jurisdiction
20 because Defendant has derived an overwhelming percentage of its
21 revenue from California and because Defendant performs "other
22 enforcement activities" along with sending its cease-and-desist
23 letters. Plaintiff cites only law regarding specific jurisdiction
24 in its supplemental brief.

25 Specific jurisdiction exists when

26 (1) the defendant purposefully directed its
27 activities at residents of the forum, (2) the
28 claim arises out of or relates to those
activities, and (3) assertion of personal
jurisdiction is reasonable and fair. With

1 respect to the last prong, the burden of proof
2 is on the defendant, which must "present a
3 compelling case that the presence of some other
4 considerations would render jurisdiction
 unreasonable" under the five-factor test
 articulated by the Supreme Court in Burger
 King.

5 Autogenomics, 566 F.3d at 1018. (quoting Breckenridge Pharm., Inc.
6 v. Metabolite Labs., Inc., 444 F.3d 1356, 1363 (Fed. Cir. 2006)).

7 There is a presumption of reasonableness upon a showing that the
8 defendant purposefully directed its activities at forum residents;
9 the defendant bears the burden of overcoming the presumption by
10 presenting a compelling case that specific jurisdiction would be
11 unreasonable. Elecs. for Imaging, 340 F.3d at 1351-52 (citing
12 Burger King Corp. v. Rudzewicz, 471 U.S. 462, 477 (1985)). Several
13 factors should be considered in determining whether jurisdiction is
14 reasonable: "(1) the burden on the defendant, (2) the interests of
15 the forum state, (3) the plaintiff's interest in obtaining relief,
16 (4) the interstate judicial system's interest in obtaining the most
17 efficient resolution of controversies, and (5) the shared interest
18 of the several states in furthering fundamental substantive social
19 policies." Elecs. for Imaging, 340 F.3d at 1352; see Asahi Metal
20 Indus. Co. v. Super. Ct. of Cal., 480 U.S. 102, 113 (1987).

21 In a declaratory judgment action involving patents, as here,
22 "only enforcement or defense efforts related to the patent rather
23 than the patentee's commercialization efforts are to be considered
24 for establishing specific personal jurisdiction"
25 Autogenomics, 566 F.3d at 1020 (citing Avocent, 552 F.3d at 1336).
26 Courts must therefore "examine the jurisdictional facts for conduct
27 whereby the patentee 'may be said to purposefully avail itself of
28 the forum and to engage in activity that relates to the validity

1 and enforceability of the patent.'" Autogenomics, 566 F.3d at 1020
2 (quoting Avocent, 552 F.3d at 1336). Cease-and-desist letters, on
3 their own, are insufficient to warrant specific jurisdiction.

4 "Principles of fair play and substantial justice afford a patentee
5 sufficient latitude to inform others of its patent rights without
6 subjecting itself to jurisdiction in a foreign forum."

7 Autogenomics, 566 F.3d at 1020 (quoting Red Wing Shoe, Inc. v.
8 Hockerson-Halberstadt, Inc., 148 F.3d 1355, 1360-61 (Fed. Cir.
9 1998)).

10 Plaintiff asserts that Defendant has engaged in several
11 enforcement activities in California, in addition to sending cease-
12 and-desist letters. In particular, Plaintiff maintains that
13 Defendant's communications with other California businesses to
14 discuss licensing, and a lawsuit in this judicial district against
15 another company, justify specific jurisdiction.¹

16 Many of Defendant's letters invited California companies to
17 meet with its attorneys to discuss potential licensing
18 arrangements. For example, in a letter to a prospective licensee,
19 one of Defendant's attorneys stated that he would be in California
20 in February, 2005 and sought to schedule a meeting to discuss
21 Defendant's patent licensing program. Walker Supp. Decl., Ex. 40.
22 In another instance, Defendant sent multiple letters to a
23 California company regarding a potential licensing agreement.
24 However, as Plaintiff concedes, these letters were suggestions to

25
26 ¹ Plaintiff also asserts that, in at least three licenses,
27 Defendant avails itself of protections under California Civil Code
28 § 1542. See Opp'n at 7; see, e.g., Walker Supp. Decl., Ex. 8 at
10. Plaintiff appears to have misread these licenses; the text
clearly states that Defendant waives its rights, to the extent it
has any, under that section.

1 "discuss potential licensing terms." Supp. Opp'n at 10. These
2 communications are not the type of enforcement activity envisioned
3 in Autogenomics, but rather Defendant's efforts at
4 commercialization; they cannot be used to support specific
5 jurisdiction.²

6 Plaintiff mentions a patent infringement lawsuit prosecuted by
7 Defendant in this district. Autogenomics recognizes lawsuits as
8 enforcement activity. 566 F.3d at 1020 (citing Viam Corp. v. Iowa
9 Export-Trading Co., 84 F.3d 424, 430 (Fed. Cir. 1996)). However,
10 the case was transferred here over Defendant's objections, so it
11 does not provide evidence of Defendant's attempt to avail itself of
12 this forum.

13 Plaintiff's citation to Electronics for Imaging, Inc. is
14 unavailing. There, the court identified three facts that, taken
15 together, supported specific jurisdiction. Elecs. for Imaging,
16 Inc., 340 F.3d at 1351. First, the defendant hired a California
17 attorney to prosecute its patent application, who contacted the
18 plaintiff on numerous occasions to report the application's
19 progress. Id. Second, the defendant contacted the plaintiff by
20 telephone several times to discuss the technology covered by the
21 patent application. Id. Third, the defendant sent its
22 representatives to visit the plaintiff's California facility "for
23 the purpose of demonstrating the technology" underlying its patent.
24 Id. Here, Plaintiff has not alleged similar facts.

25
26 ² The Autogenomics court noted that, although it was concerned
27 that "foreign patentees . . . may engage in significant
28 commercialization and licensing efforts in a state while
benefitting from the shelter of the Avocent rule, we are
nonetheless bound by Avocent." 566 F.3d at 1021.

1 Finally, Plaintiff cites Defendant's non-exclusive licenses
2 and the revenue from them. Defendant has earned a substantial
3 portion of its revenue from California entities. However, as
4 Autogenomics states, non-exclusive licenses, without any showing of
5 enforcement efforts, are insufficient to justify specific
6 jurisdiction. 566 F.3d at 1020 (citing Red Wing Shoe, 148 F.3d at
7 1359, 1362). And revenue from licensees is irrelevant unless the
8 contact with the licensees is itself "constitutionally cognizable."
9 Red Wing Shoe, 148 F.3d at 1361-62 (finding that the defendant's
10 royalty income from its Minnesota licensees was irrelevant to a
11 personal jurisdiction analysis).

12 Aside from Defendant's commercialization efforts, which do not
13 justify personal jurisdiction under Federal Circuit precedent,
14 Plaintiff provides no evidence of Defendant's contacts with
15 California. Accordingly, there is no basis for specific
16 jurisdiction.

17 CONCLUSION

18 For the foregoing reasons, the Court GRANTS Defendant's motion
19 to dismiss for lack of personal jurisdiction or, in the
20 alternative, to transfer to the Northern District of Illinois.
21 (Docket No. 49.) Plaintiff's request for additional time to
22 conduct discovery is DENIED. Plaintiff shall notify the Court
23 within two days if it wishes the Court to transfer the case to the
24 Northern District of Illinois. If it does not, the case will be
25 dismissed without prejudice.

26 IT IS SO ORDERED.

27 Dated: November 16, 2009



CLAUDIA WILKEN
United States District Judge